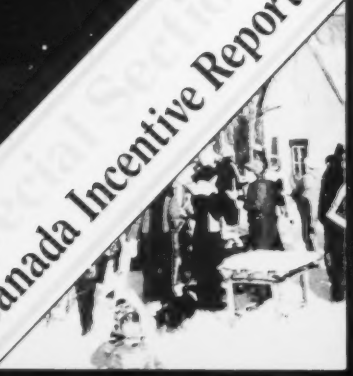
Incentive Marketing

INCORPORATING INCENTIVE TRAVEL

MAY 1984

The New York Show: A World of Ideas

Canada Incentive Report



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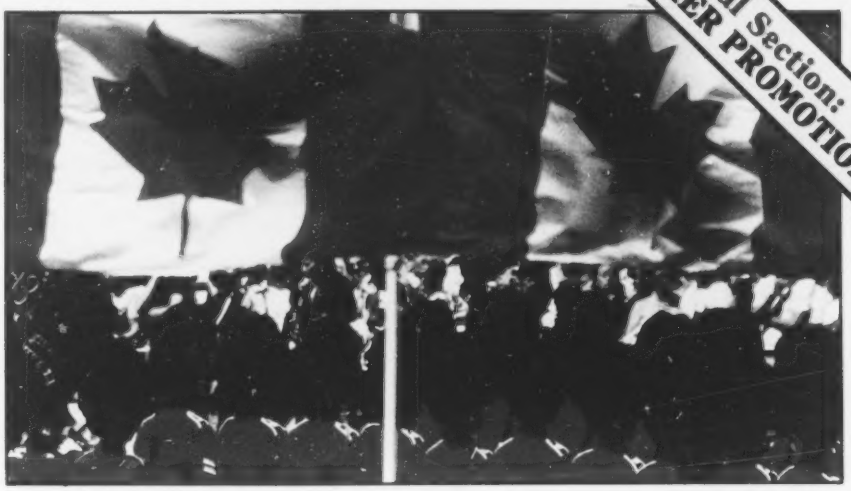
INCENTIVE MARKETING

Special Section: CONSUMER PROMOTION

May 1984



The changing of the guard in Ottawa is just one of many attractions for incentive travelers in Canada. See page 60 for more details.

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Bill publications and divisions: Automotive Chain Store, Incentive Marketing, Industrial Chemical News, Institutional Distribution, Jobber Retailer, Modern Tire Dealer, Plastics Technology, Restaurant Business, Restaurant & Hotel Design, Sales & Marketing Management, Successful Meetings, Foodservice Research Center, Market Statistics, Sales Builders, SM Data Bank.

Recovery spurs solid gains in consumer premium usage

Last year's cautious turnaround has emboldened consumer incentive users to the extent that **Incentive Marketing's** latest user survey indicates a potential growth of 12 to 15 percent for 1984 in this sector of the incentive field.

The assessment of heightened activity is based on reports of 179 companies that estimated their consumer premium expenditures for both years.

Last year did bring greater promotional efforts than had been seen for a while—most of the activity occurred during the last half of the year when marketers began to believe in a recovery. Consumer promotion by manufacturers and wholesalers reached a new high estimated at $3 billion, up 7.3 percent from the previous year, while inflation cooled to around half that level. Retail incentive usage added another $2.1 billion, less than a 4-percent increase over 1982.

Both areas are stronger so far this year—and the climate suggests the retail segment of the field will do its share rather than drag its feet as happened last year.

Early estimates for this year show special emphasis on direct premium programs, reflecting confidence in rising sales curves—since this type of incentive is intimately tied to consumer purchases, unit for unit. Marketers are clearly confident that the incentive stimulus will bring the extra volume they are after.

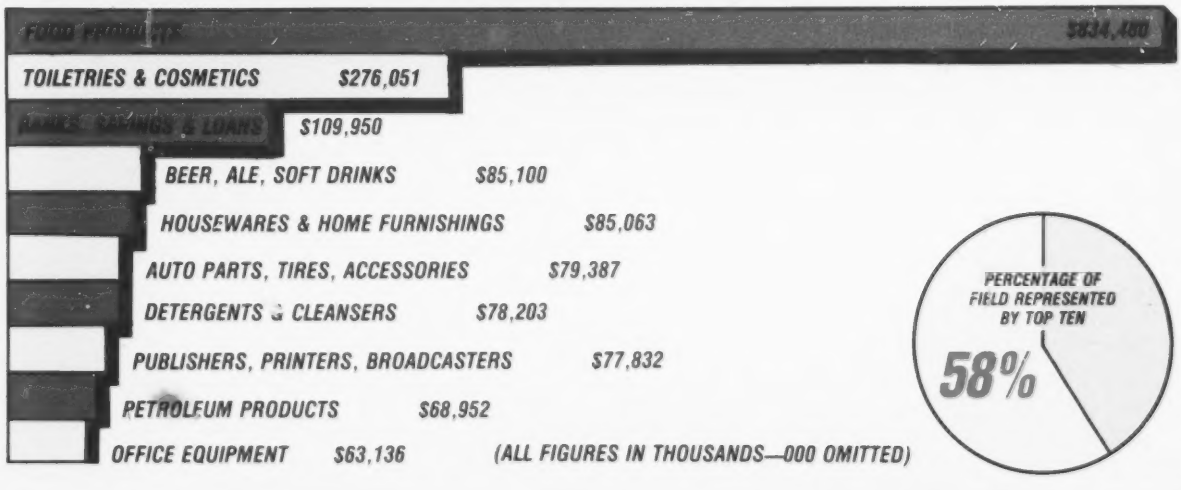
These executives' plans for this year include, on the average, one more promotional campaign than a similar group indicated in our 1983 survey. Among users of mail-in promotions—self-liquidators, free mail-ins and sweepstakes—the average reported was 4.6 programs. For other premiums—direct offers, factory-packs and coupon plans—the estimates averaged 5.6. In both categories, however, the median response was 4. A year ago, the median number of promotional campaigns reported was 3.

On an industry basis, the 10 largest users of consumer premiums last year did not change greatly. Food products remain by far the largest category, accounting for about 28 percent of all dollars spent for consumer premium promotion. Their activity last year was up an estimated 7.7 percent over 1982—just a bit ahead of the entire field. Early indications for 1984 show that food firms will continue to run somewhat faster than the overall incentive field, at least in the consumer promotion areas.

The No. 2 industry in consumer promotion, toiletries and cosmetics, spent more than $276 million last year—up 9 percent from 1982—and that industry also is showing strong incentive efforts so far in 1984.

Financial institutions cut back drastically on consumer premium promotions in 1982, and stayed at a low level last year—but their volume still

TOP TEN CONSUMER PREMIUM USERS (1983)


FOOD PRODUCTS $834,480
TOILETRIES & COSMETICS $276,051
BANKS, S&L'S & LOANS $109,950
BEER, ALE, SOFT DRINKS $85,100
HOUSEWARES & HOME FURNISHINGS $85,063
AUTO PARTS, TIRES, ACCESSORIES $79,387
DETERGENTS & CLEANSERS $78,203
PUBLISHERS, PRINTERS, BROADCASTERS $77,832
PETROLEUM PRODUCTS $68,952
OFFICE EQUIPMENT $63,136
(ALL FIGURES IN THOUSANDS—000 OMITTED)
PERCENTAGE OF FIELD REPRESENTED BY TOP TEN
58%

keeps banks and savings and loan associations in third place in the user rankings.

After a 29.1-percent decline in all bank promotion—and 35 percent in consumer direct premiums—in 1982, consumer promotion activity in this area dropped another 9 percent last year. But things are looking up for effective incentive promotion of deposits and other financial business. Deregulation gave the bankers a free rein to promote interest rates rather than creative incentives. Meanwhile, they were also in a position of oversupply of deposit funds, making promotion less necessary for some time.

The interest numbers have become a blur, however, and the financial promoters need something else. And they are getting it—with new premium programs, from in-lieu-of-interest offers to elaborate catalogs of self-liquidators. The 1984 numbers for financial premium activity will show a considerable upswing.

Beyond the top three, the only other change in the list of leading user industries is a minor shift in the fourth and fifth positions, with beer, ale and soft drinks nosing out housewares and home furnishings. And all of the other leading consumer premium users appear to be closely following the pattern of growth seen in 1983 estimates. (See chart of top ten, page 41.)

In the retail arena—not treated as one of the top ten, although it is actually the largest area of consumer promotion—a clear upward trend is forecast. Sluggish promotion activity at retail—particularly in the supermarket—may be about to end.

Supermarket promotion in the first half of the 1970s was characterized by a simple formula: the downward movement of trading stamps and the ascendancy of "discount." After forcing some operators into bankruptcy and others close to it, the discount craze was caught up in a recession, rampant inflation, then another recession. Trading stamp volume, which had plummeted from more than $800 million a year to a third of that, was replaced by the continuity promotion, a device that returned some profit to the retailer.

Continuity promotions have continued to grow. **IM** does not report them separately, but rough estimates suggest they at least made up for the loss in expenditures for trading stamps over the past few years. Tape redemption plans, games, sweepstakes and other promotions have picked up a minor share of food retailers' promotional dollars.

The extreme price-consciousness first created by the supermarket chains in the early 1970s, and then forced upon them by recession and inflation, may now be abating. Rapid price escalation in food products ended during 1983, and so did the recession. If price need not be the entire story for food marketers at retail, premium promotion will return: it is already beginning to do so.

The total tab for retail promotion—a bit over $2 billion—represents a minor share of that industry's marketing costs. It has grown much less than the rest of the incentive field. Observers in the supermarket industry, however,

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are now predicting an upward trend at a rate well above the 10-percent mark.

Our last survey of this type was weighted toward food manufacturers, and some of the advertising media choices reflect that bias. Then, 43 percent chose point-of-purchase displays as the first medium. In the present survey, more broadly representative in industry terms, only 23 percent use displays regularly. The top choice is direct mail, listed by 59 percent. Newspapers rank second, reported by 29 percent. Other media include: tv and radio, 18 percent; consumer magazines, 15 percent; trade publications, 12 percent; bounce-backs, 8 percent; Sunday supplements, 6 percent; and on-package advertising, only 2 percent.

Among those who count on point-of-purchase displays, an average of 57 percent of dealers are said to use the materials. And these users believe that display usage is increased, on the average, by 38 percent over what they could expect in a non-promotional period. This contrasts with a 29-percent increase in displays reported by the food-slanted executives last time.

Knowing in advance whether the premium will sell is quite another matter—and users differ on the question of whether one can know. A majority of 60 percent thinks so, and tries to find the answers by conducting advance tests. In the last survey, only 38 percent said they usually test mail promotions. For promotions other than mail-ins, fewer—56 percent—now believe in t .sting.

A consumer item preference test is the usual approach, and there are several ways to do it. Top choice in most of our studies is personal interviews, and 33 percent of the users chose that road this time, while a mailed questionnaire approach was preferred by 19 percent.

The primary objective of a test is to estimate consumer response, as measured by the actual number of premiums used. We asked users how accurate their tests are in predicting this response, and their answers averaged plus or minus 28 percent. The last time we asked this question, in a 1982 survey, the result was plus or minus 20 percent. Thus it appears that, rather than improving, test accuracy has eroded somewhat. Still, a majority of the users, 57 percent, tell us they are satisfied with the results—against 66 percent last time.

The mail-in self-liquidator is the major concern of many of these marketers. It appears that users have held the line in liquidating prices in the past year, despite frequent examples of high consumer prices. The average price quoted remains a bit over $9, with the median at $6, just about where it was in the previous survey.

Although the prices of self-liquidators have remained stable, the perception of a ceiling has not. In our 1982 survey, users indicated they felt that response would decline significantly above an average charge of $11.35 to the consumer. This year's average on the same issue was $17.85.

Free mail-in offers have other unique considerations. One is how the cost of the premium relates to the amount of product pur-

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CONSUMER PREMIUMS: WHAT THEY CAN DO

(% OF USERS IN 1983 SURVEY WHO CONSIDER EACH TECHNIQUE "MOST EFFECTIVE" FOR REACHING SPECIFIED GOAL)

GET SHELF ATTENTION		SELL-IN TO DEALERS		BOOST REPEAT SALES	
SELF-LIQUIDATOR	16%	SELF-LIQUIDATOR	12%	SELF-LIQUIDATOR	21%
FREE MAIL-IN	18	FREE MAIL-IN	10	FREE MAIL-IN	22
SWEEPSTAKES	13	SWEEPSTAKES	17	SWEEPSTAKES	8
COUPON PLAN	10	COUPON PLAN	12	COUPON PLAN	26
DIRECT PREMIUM	13	DIRECT PREMIUM	31	DIRECT PREMIUM	10
FACTORY-PACK	30	FACTORY-PACK	18	FACTORY-PACK	13
BE A SALES TALKING POINT		**BUILD USER GOODWILL**		**GAIN AD READERSHIP**	
SELF-LIQUIDATOR	11%	SELF-LIQUIDATOR	20%	SELF-LIQUIDATOR	12%
FREE MAIL-IN	12	FREE MAIL-IN	23	FREE MAIL-IN	21
SWEEPSTAKES	13	SWEEPSTAKES	11	SWEEPSTAKES	37
COUPON PLAN	15	COUPON PLAN	19	COUPON PLAN	10
DIRECT PREMIUM	26	DIRECT PREMIUM	19	DIRECT PREMIUM	16
FACTORY-PACK	21	FACTORY-PACK	9	FACTORY-PACK	4
OBTAIN STORE DISPLAYS		**SAMPLE NEW USERS**		**COST/EFFECTIVENESS**	
SELF-LIQUIDATOR	17%	SELF-LIQUIDATOR	18%	SELF-LIQUIDATOR	43%
FREE MAIL-IN	9	FREE MAIL-IN	42	FREE MAIL-IN	11
SWEEPSTAKES	12	SWEEPSTAKES	11	SWEEPSTAKES	13
COUPON PLAN	6	COUPON PLAN	6	COUPON PLAN	10
DIRECT PREMIUM	24	DIRECT PREMIUM	15	DIRECT PREMIUM	12
FACTORY-PACK	32	FACTORY-PACK	8	FACTORY-PACK	11

chase required to qualify to obtain the premium. In the present survey, this comes to an average of 20.5 percent, much higher than in previous studies (it was only 9 percent two years ago). This appears to tie in with the constantly reduced numbers of proofs of purchase required to obtain premiums.

When the free-in-the-mail type of offer began to achieve popularity several years ago, it was common for users to ask for large numbers of proofs of purchase. Fifteen or 20 was fairly usual, and much larger numbers were found in some promotions. By 1982, however, our survey found that the average requirement was only 3.8 proofs of purchase per premium; and the latest finding is only 2.7, with a median of 2.

The free-mail-in has not grown much in the past few years, and one reason has appeared to be the uncertainty of its cost. Another, in terms of very recent promotion practice, seems to be a high number of mail refund offers that substitute for premium offers. These free offers are the only consumer premium type that appear to be showing very little growth in 1984 expenditures.

Another free premium that seems to be thriving, however, is the factory-pack. This has distinct advantages in gaining store shelf attention—and distinct disadvantages in requiring extra handling in the store. But it continues to find a limited degree of support, and is growing in usage this year. The average cost budgeted for a factory-pack premium by this year's survey respondents is 10.9 percent or the retail purchase required—compared with the 10 percent reported in the last survey.

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CONSUMER PROMOTION

The factory-pack wins top honors among users for two of the major consumer premium objectives. It is considered by 30 percent of users as the best performer for shelf attention—and 32 percent say it is tops in getting store displays.

The factory-pack's unattached cousin, the direct premium, also scores as the most effective in two areas—as a sales talking point (28 percent) and as an aid to sell-in to dealers (31 percent).

Free mail-in offers, despite their relative loss of favor among many users, still are the acknowledged leaders for building user goodwill (23 percent) and sampling new users (42 percent).

Other leaders in achieving objectives are detailed in the table on page 46.

Both the self-liquidator and its free mail-in counterpart present a physical handling problem—getting the premium to the consumer. To process incoming mail and ship out premiums, users have four principal options. Here is how they rate them in this survey:

- **67 percent process and fulfill in-house**
- **14 percent process mail, and send labels to a fulfillment house or supplier**
- **11 percent have a professional fulfillment house handle all**
- **8 percent have a supplier handle mail and drop-ship**

Another kind of relationship with outside suppliers applies to all premium types—the source from which to buy. Getting premiums direct from the manufacturer is the preference of 43 percent, while 32 percent go through a premium rep. Jobbers or wholesalers supply 14 percent, about 8 percent buy from advertising specialty distributors and 3 percent like to have an advertising or sales promotion agency take care of all the details.

Handling details—whether mechanics planning, advertising or evaluation—is a major element in a premium program for any marketer. At the top of this list of problems cited by respondents were "finding the time to do it," "getting supplier cooperation," and "personnel support."

Still, companies find the time. And their reports tell us it is paying off in 1984—a little better than it has for a while. The economy is on their side now—and they know how to make it work for them. ■

June 1984 Not Filmed

NOTE

ONLY THE FOLLOWING PAGES OF THIS

PUBLICATION HAVE BEEN FILMED

Cov. 1, p. 5, 51-54, 56, 58,

60, 62.